

Instructions for the Farmland Preservation Credit for Corporate Farm Owners, Estates and Trusts (form C-8022)

What is the Farmland Preservation Credit?

The Farmland Preservation Tax Credit gives back to farmland owners a share of the property tax they pay on their farmland. Farmland owners qualify for credit by agreeing to keep the land as farmland and not develop it for another use.

Do I qualify for the Farmland Preservation Credit?

You qualify if you meet ALL these requirements:

- You own farmland.

AND

- You have entered into a Farmland Development Rights Agreement (FDRA) with the Michigan Department of Natural Resources (DNR).

If you have agreements entered into on or after January 1, 1978, you must meet the gross receipts qualifications in Part 2.

What is a Farmland Development Rights Agreement

Through an FDRA you receive property tax relief in return for your pledge not to change the use of your lands.

Be careful: The FDRA restricts development of your land. Before making any changes to property covered under this agreement or to its ownership, consult the DNR. Some changes may make your property ineligible for credit.

Important Note: S corporations may file under Michigan Income Tax instead of Single Business Tax. Shareholders of an S corporation should prorate taxes on land owned by the S corporation based on their percent of ownership.

Which form to file

The following should file using form C-8022:

- estates, include property taxes from the date of death and farm income required to be reported on your *U.S. 1041*.
- corporations (other than S corporations).
- S corporations that had an FDRA before January 1, 1989 and in 1991 elected to file form C-8022.
- trusts, except as noted below.

The following should file using the MI-1040CR-5:

- individuals who own a farm independently.
- representatives of deceased single persons. Include property taxes and income from January 1 to the date of death.
- partnerships.

- joint owners.
- S corporation shareholders, **except** shareholders of S corporations that had an FDRA before January 1, 1989 and in 1991 elected to file under the Single Business Tax Act on form C-8022.
- grantor trusts (if you are treated as an owner under Internal Revenue Code, Sections 671 to 679).
- trusts created by the death of a spouse if the trust requires 100 percent of the income from the trust to be distributed each year to the surviving spouse.

If you need an MI-1040CR-5 form, call 1-800-FORM-2-ME (367-6263).

How to claim the credit

Complete the attached form C-8022. If you are applying this credit to your SBT liability, attach it to your *Single Business Tax Annual Return* (form C-8000). Attach a copy of page 1 of your *U.S. 1120* or *1041* and copies of all the federal schedules you completed for your federal tax return. You must also include the following:

1. A copy of your 1999 property tax statement(s) with corresponding agreement numbers listed on each.
2. A copy of the receipt showing that your 1998 or 1999 property taxes were paid. If your property taxes have not been paid or you do not attach your receipt(s), Treasury will mail a check made jointly payable to the corporation, estate or trust and the county treasurer for the county where the property is located. (A new check payable only to the corporation, estate or trust will not be issued if you later prove that the taxes had been paid.)
3. If your property tax statement includes property that is not covered under an FDRA, you must show what portion of your total acreage and property tax is for land enrolled in the FDRA. Your local equalization officer or your local assessor must give you this information on official letterhead if it is not listed separately on your property tax bills.

When to claim a new agreement

New agreements must be approved by your local government by November 1, 1999 for you to claim a 1999 credit. But your FDRA is not final until you receive a copy from the DNR that has been recorded at the Register of Deeds. Credit for the new FDRA will not be allowed unless a copy of the recorded agreement is attached to the return. If you don't get your notice before April 30th, file your return without that agreement. File a new C-8022 with an *Amended Single Business Tax Return* (C-8000X) when you have your FDRA.

What to do with a jointly payable check

Take the check, check stub and a copy of your FDRA(s) to your county treasurer(s). He or she will have you endorse the check and then use the refund to pay any delinquent taxes. Any remaining amount will be returned to you.

Property taxes that can be claimed for credit

The property taxes levied in 1999 on enrolled land are eligible for the 1999 credit, regardless of when they are paid.

Ad valorem property taxes that were levied in 1998 including collection fees up to 1 percent of the taxes can be claimed for credit. Special assessments (those not based on taxable value), penalties and interest cannot be claimed.

Taxes on land not eligible for either the homestead or agricultural exemption most likely are not eligible for P.A. 116 credit. The exception is rental property where the tenant spends at least 1,040 hours per year participating in the farming operation. To compute the taxes that can be claimed for credit, exclude the school operating tax, and multiply the balance by the percentage of exemption allowed by the local taxing authority.

Example:

Taxes levied	\$2,000
School operating tax	\$350
Homestead exemption	60%
\$2,000	\$1,650
<u>-350</u>	<u>x 60%</u>
\$1,650	\$990 can be claimed for credit

If you have entered into more than one agreement with the DNR, the sum of the taxes under each agreement is used to compute your credit. The amount of credit you will receive is based on adjusted business income. Taxes levied on rental property cannot be claimed for credit unless the tenant is involved in the farm operation.

What if the land is owned by an S corporation?

Beginning with credits for 1988, taxes on land owned by an S corporation are allocated to each shareholder based on their share of the corporation's stock. **Exception:** If the S corporation had an FDRA before 1989 and in 1991 elected to file under the Single Business Tax Act on form C-8022, the S corporation must continue to file under the SBT. If the FDRA was not in the S corporation's name before January 1, 1989, the taxes on land covered by this agreement must be claimed on the shareholder's Michigan income tax on form MI-1040CR-5. The shareholders must claim these taxes even if the S corporation elected to file form C-8022 for other agreements that the S corporation entered into before January 1, 1989.

I purchased a farm in 1999 that was already enrolled in the program.

How do I claim a credit?

Your farmland credit will be processed only if there is a farmland agreement on file with the DNR IN THE SAME NAME AS YOUR DEED. You must prorate the 1999 taxes for the period you owned the land and claim your credit based on those taxes only.

Line-by-Line Instructions

Lines not listed are explained on the form.

Part 1: Identification

Line 3: Tax year of claim - Enter the ending month and year of your annual accounting period in which this credit is claimed.

Example: A participant with a tax year ending December 31 claims a credit for the 1999 property taxes in the tax year ending in December 1999.

Line 4: First year under FDRA - If you entered into agreements on or after January 1, 1978, enter the ending month and year of the accounting period in which you first entered into this agreement. (Example: A participant with a tax year ending December 31, enters into an agreement January 5, 1990. The first year under the agreement is the year ending December 1990.)

Part 2: Gross Receipts Qualification Applies only to agreements entered into on or after January 1, 1978.

If you entered into agreements on or after January 1, 1978, you must determine your eligibility for a farmland credit using one of the two qualification formulas provided below. If all your agreements began before January 1, 1978, go directly to Part 3.

IMPORTANT - Once you elect a qualification formula, all future claims must be filed using that formula.

• **Total receipts formula (line 9)** - This formula compares your agricultural gross receipts to your property taxes on the enrolled land in each of the tax years preceding the tax year of this claim. If your gross receipts are more than five times your property taxes in at least three of the five tax years, you may use this formula.

• **Average receipts formula (line 14)** - This compares the average of your agricultural gross receipts for three tax years preceding the tax year of this claim to your property taxes on the enrolled land in the first year under the agreement. If your average receipts are more than five times your property taxes in the first year, you qualify under this formula.

Line 5: Years preceding claim year - Enter each of the years immediately preceding the claim year. Enter the most current year in the 1st Year column.

Line 6: Property taxes on enrolled land - Enter the property taxes for each year reported on line 5 that are attributable to land enrolled on or after January 1, 1978.

Do not include property taxes on land enrolled before January 1, 1978, or property taxes on structures or any other lands not enrolled in an FDRA.

Line 8: Agricultural gross receipts - Enter the agricultural gross receipts for the tax years immediately preceding the tax year of this claim. Agricultural gross receipts are receipts from the business of farming as defined in the Internal Revenue Service Regulation 1.175-3. (Also see *Revenue Administrative Bulletin 89-47, Agriculture Exemption.*)

If your farm operation was incorporated during this 5-year period and the ownership before and after date of incorporation is identical, you may report gross receipts for all five tax years. If the ownership changed, enter gross receipts only for those tax years since incorporation.

Line 9: Total receipts formula - If the agricultural gross receipts on line 8 are more than the increased property taxes on line 7 in at least three of the five tax years and you elect this qualification, check the box.

Line 14: Average receipts formula - If the average gross receipts on line 13 are more than the increased property taxes on line 11 and you elect this qualification, check the box.

Part 3: Taxes That Can Be Claimed for Credit

List each agreement number and the amount of tax from the property tax statements in columns A through E. List the corresponding agreement number on each property tax statement and attach copies of the tax statements to your return.

Column A - Enter the farmland preservation agreement number assigned by the DNR. If a contract has a part A, B or C etc., each part is treated as an individual agreement and must be listed separately. If an agreement has been extended, be sure to use the new agreement number.

Column B - For each agreement, check the "Yes" box if you attached paid tax receipts for 1998 or 1999. If paid receipts are not attached, check the "No" box. If you do not check a box, your Farmland Preservation Credit will be issued jointly to you and the treasurer for the county where the property is located.

Note: 1999 property tax statements must be attached regardless of which box is checked in column B.

Column C - Enter the date each agreement was entered into.

Column D - Enter the amount of tax on land and structures under agreement from each tax statement (do not include penalties, interest or special assessments).

Collection fees may be included. If you are a joint owner, enter only your share of taxes.

Column E - After entering all of the tax statements for one agreement, add the amounts entered in column D for that agreement and enter the total once in column E.

Line 16: Taxes on land enrolled after December 31, 1977. If you qualify under one of the gross receipts formulas (line 9 or 14), enter the taxes from column E on land and structures enrolled after December 31, 1977. Otherwise, enter zero.

Part 4: Taxes That Cannot Be Claimed for Credit

If you file a *Single Business Tax Annual Return* (form C-8000), the amounts used in this computation are available on your return and schedules. If you do not file an SBT annual return, complete the form C-8000KC and attach it to this claim.

Enter on lines 19 through 24 the amounts for the tax year of this claim (the year entered on line 3).

Line 19: Income - Enter the amount from your *U.S. Corporation Income Tax Return (U.S. 1120)*, *U.S. Income Tax Return for an S-corporation (U.S. 1120S)* or *U.S. Fiduciary Income Tax Return (U.S. 1041)*. This amount can be less than zero

Line 24: Compensation of other shareholders - Enter the sum of compensation from C-8000KC, column K, for each shareholder who is not an officer or active shareholder.

Part 5: Credit

Line 27: Subtract line 26 from line 18.

If you have entered into more than one agreement, complete columns F and G, Part 3.

Part 3, Column F - Divide each amount in column E by the total on line 15e, column E and enter the percent in column F.

Part 3, Column G - Multiply line 27 by percent computed in column F and enter in column G.

Mail to:

***Farmland Preservation Unit
Michigan Department of Treasury
P.O. Box 30058
Lansing, MI 48909***

Please assemble your return and attachments in the following order, beginning on top:

1. *Farmland Preservation Tax Credit* (form C-8022).
2. *Single Business Tax Annual Return* (form C-8000), if you are applying this credit to your SBT liability.
3. A copy of page 1 of your 1999 *U.S. 1120*, *U.S. 1120S* or *U.S. 1041* and all supporting schedules.
4. A copy of any recorded Farmland Development Rights Agreement(s) (FDRAs) not claimed on your previous year's return.
5. A copy of the 1999 property tax statement(s) that show the taxable value, the property taxes levied, and the corresponding agreement numbers.
6. An official allocation of your tax statement amount between property subject to an FDRA and property not covered by an FDRA.
7. A copy of the receipt showing payment of 1998 or 1999 property taxes.

To Get Forms --

1-800-FORM-2-ME (367-6263)

This number is available 24 hours a day. Tell our computerized forms message system what you need and we will mail your forms. Forms are also available at all Treasury offices and at most Michigan Secretary of State offices, many libraries, post offices and financial institutions.

Michigan Tax Forms By Fax (517-241-8730)

The fax service is available 24 hours a day, 365 days a year. Call from a fax phone to have 1999 Michigan tax forms sent to your fax machine 24 hours a day/365 days a year

Web Site

Visit our Treasury web site on the Internet at:

www.treasury.state.mi.us